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RUEATRS/DEPT OF TREASURY WASHDC  
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STATE FOR WHA/BSC AND EB/IFD/OIA  
STATE PASS TO USAID FOR LAC/AA  
STATE PASS TO USTR FOR LYANG  
NSC FOR SUE CRONIN  
TREASURY FOR OSIA MAUREEN WAFER  
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR  
COMMERCE FOR ITA SARAH COOK  
SOUTHCOM FOR POLAD

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, FEBRUARY  
18-24, 2006

**¶1. (U) Summary:**

-- Prosecutors Open Investigations on President and Tax Minister  
-- President Duarte Seeks Proposes Reelection Referendum  
-- Duarte to Meet with Foreign Leaders

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Prosecutors Open Investigations on President and Tax Minister  
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**¶2.** On February 21, Paraguayan press reported that prosecutors within the Public Ministry's Anti-Corruption Unit will investigate President Duarte and his Vice Minister of Revenue, Andres Neufeld, for illicit enrichment. President Duarte is being investigated based on 2001-2003 declarations of assets which suggest he owns property valued far higher than his presidential salary would allow him to afford. Under Paraguayan law, Duarte is only required to declare his assets at the beginning and end of his term, and not during. Andres Neufeld is being investigated for taking a percentage of fines collected in tax evasion cases although the tax overhaul legislation passed in 2004 included provisions to allow for officials to share in fine revenues as a performance incentive. Corruption prosecutor Arnaldo Giuzzio has been assigned to both cases. Giuzzio told Poloffs that he believes Neufeld has done nothing outside the parameters of the law, and at most may have acted unethically. We are inclined to agree. Neufeld has a reputation for being honest. He has come under attack for implementing a new and unpopular personal income tax; it is likely the allegations are politically inspired by opponents of the law, including Osvaldo Dominguez Dibb (ODD) who lambasted Neufeld during the recent Colorado election. It is unlikely charges will be brought against either Duarte or Neufeld --at least while Duarte is in office-- given the political stakes.

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President Duarte Proposes Reelection Referendum  
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**¶3.** On February 21, President Duarte publicly proposed

holding a referendum during this year's November municipal elections to allow a popular vote on an amendment to the Constitution allowing his reelection. Several of his detractors objected to the President's reelection amendment proposal, insisting it would be unconstitutional for the president to pursue approval for reelection by any means other than a Constitutional amendment secured through a Constituent Assembly. Comment: Duarte would need to draw considerable opposition party support to produce the two-thirds majority in both Houses of Congress that he needs to pursue a Constituent Assembly. The opposition parties continue to reject a Constituent Assembly prompting Duarte to explore other avenues. End Comment.

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Duarte to Meet with Foreign Leaders  
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¶4. On February 22 Paraguayan Foreign Minister Leila Rachid announced that President Duarte will travel to meet multiple foreign leaders over the next several months. His first stop will be Santiago, Chile to attend the March 10 inauguration of Chilean President-Elect Michelle Bachelet. On May 13, he will attend the meeting of Latin American presidents and EU leaders in Vienna, and follow up with a meeting with French President Jacques Chirac on May 17. A visit to Spain late in June is also planned, but the GOP will first have to appoint an ambassador to Spain before the trip.

CASON